



SOMERVILLE INDUSTRIES LIMITED

1968 ANNUAL REPORT



SOMERVILLE INDUSTRIES LIMITED

Directors

J. G. Church
G. E. Creber
K. G. Dalglish
J. W. Feightner
F. C. Lennox
I. A. MacDonald
F. J. Orr
W. Garfield Weston

Officers

F. C. Lennox	Chairman and President
J. G. Church	Executive Vice-President
I. A. MacDonald	Vice-President, Packaging
J. W. Feightner	Vice-President, Automotive & Plastics Divisions
A. B. Van der Ende	Secretary-Treasurer

Management Committees

Head Office:

F. C. Lennox	Chairman
J. G. Church	Executive Vice-President
I. A. MacDonald	Vice-President, Packaging
J. W. Feightner	Vice-President, Automotive & Plastics Divisions
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations

Packaging:

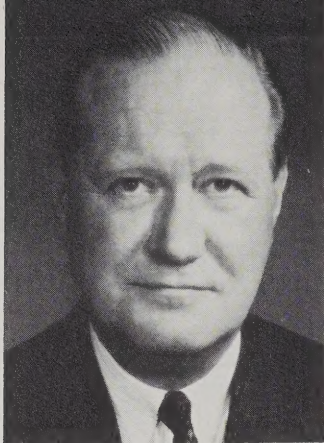
I. A. MacDonald	Chairman
G. J. Deignan	General Manager, Consolth Division
E. J. Dewhurst	General Manager, Canadian Folding Cartons Division
K. W. Keene	General Manager, London Division & Winnipeg

Special Products:

J. G. Church	Chairman
J. C. Bacon	Assistant General Manager, Plastics Division
R. W. Bastien	General Manager, Display Division
J. W. Feightner	Vice-President, Automotive & Plastics Divisions
B. L. Morin	General Manager, Games & Strathmore Division

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver



TO THE SHAREHOLDERS:

Summary

In 1968 your Company's sales and operating income extended the pattern of growth we have recorded for the past eleven years.

Net sales of \$43,659,146 were \$2,294,007 above 1967, an increase of 5.5%. Net income from operations after all charges was \$1,876,605 which is \$110,755 or 6.3% more than in 1967.

Profit realized from the disposal of equipment increased net income for the year to \$1,925,352 resulting in a total increase of \$159,502 or 9.0% over 1967.

Operations

PACKAGING AND RELATED PRODUCTS

The Packaging Divisions recorded a 5.3% increase in sales during 1968. Despite this growth in sales, income remained close to 1967 levels due to sustained competitive pressures and higher costs.

The ability to maintain our position in the packaging market is due, in large measure, to our continuing policy of investing in modern equipment and improving the efficiency of existing facilities.

SPECIAL PRODUCTS

AUTOMOTIVE PANEL DIVISION

Sales of automotive products in 1968 were slightly higher than in 1967. Income from these sales was disappointing as the year began but improved substantially during the second half. The net result was an encouraging reversal of the depressed profit situation reported in 1967. To take advantage of the increasing opportunities for compression moulded components we invested in excess of \$250,000 in equipment at this Division in 1968.

GAMES AND STRATHMORE DIVISIONS

Combined sales of games, crackers and paper novelties showed an increase of 6.4% over 1967. The improvement in income experienced in recent years was maintained. The rate of growth in this area is expected to continue as a result of new items, sustained sales effort and consumer promotion.

DISPLAY DIVISION

The Display Division recorded an appreciable increase in sales volume over 1967 and profitability showed a corresponding improvement. With this Division's sales staffs in Ontario and Quebec now at full strength we are confident that further gains will be made.

PLASTICS DIVISION

Our investment in modern equipment in recent years combined with an intensive selling programme resulted in a 24.6% increase in sales for this Division. This added volume contributed to a favourable income position which was a reversal of the situation in 1967. To sustain this new level

of sales and earnings we will continue our programme of investment in equipment to keep pace with the constant changes in the plastics field.

Properties and Equipment

Capital expenditures in 1968 were \$794,231. Nearly all of this amount was expended on equipment. We estimate that expenditures in 1969 will be slightly in excess of the above figure.

Working Capital

Working Capital at December 31, 1968 was \$5,245,319, an increase of \$428,560 over 1967. Current assets at the end of 1968 stood at \$14,781,984 as against current liabilities of \$9,536,665 — a ratio of 1.6 to 1.

Income

Operating income for 1968 of \$5,023,528 increased by 10.5% or \$475,456 over 1967.

Net income from operations after all charges was \$1,876,605 — an increase of \$110,755 or 6.3% as against 1967. Net profit on the sale of equipment contributed \$48,747 to income making total net income \$1,925,352. This is an increase of \$159,502 or 9.0% over 1967.

General

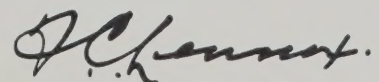
During 1968 our diversification programme was accelerated when we embarked on a joint venture with Globe Industries, Inc., of Chicago, Illinois. Together with the Globe organization we formed Mastico Industries Limited and are building a 37,000 sq. ft. plant in Tillsonburg, Ontario. The new company will manufacture sound deadening material for the automotive industry and will be in full operation by mid 1969.

We are pleased to announce the appointment of Mr. G. E. Creber as a Director of the company. Mr. Creber is also President and Managing Director of George Weston Limited.

The increasing scope and complexity of our Panel and Plastics operations necessitated a major organizational change in this area. Mr. J. W. Feightner was appointed Vice-President in charge of the Automotive and Plastics Divisions. Mr. Feightner was also appointed to the Corporate Management Committee and a Director of the Company. Mr. F. J. Orr was appointed Director of Sales and Product Development for the Automotive Divisions. Mr. J. C. Bacon has been appointed Assistant General Manager of the Plastics Division.

In order to consolidate our packaging marketing efforts and utilize common production facilities in Ontario a change was made in senior sales administration. Mr. L. A. Biddie was appointed Ontario Sales Manager with responsibilities for the direction of both the Central Region and Western Ontario Sales Offices. We are confident that these organizational changes will enhance our opportunities for growth in two major areas of our business.

It is again a pleasure to express thanks to our employees, customers, and suppliers — the people who made 1968 a successful year. We solicit their continued support and look forward with optimism to 1969.

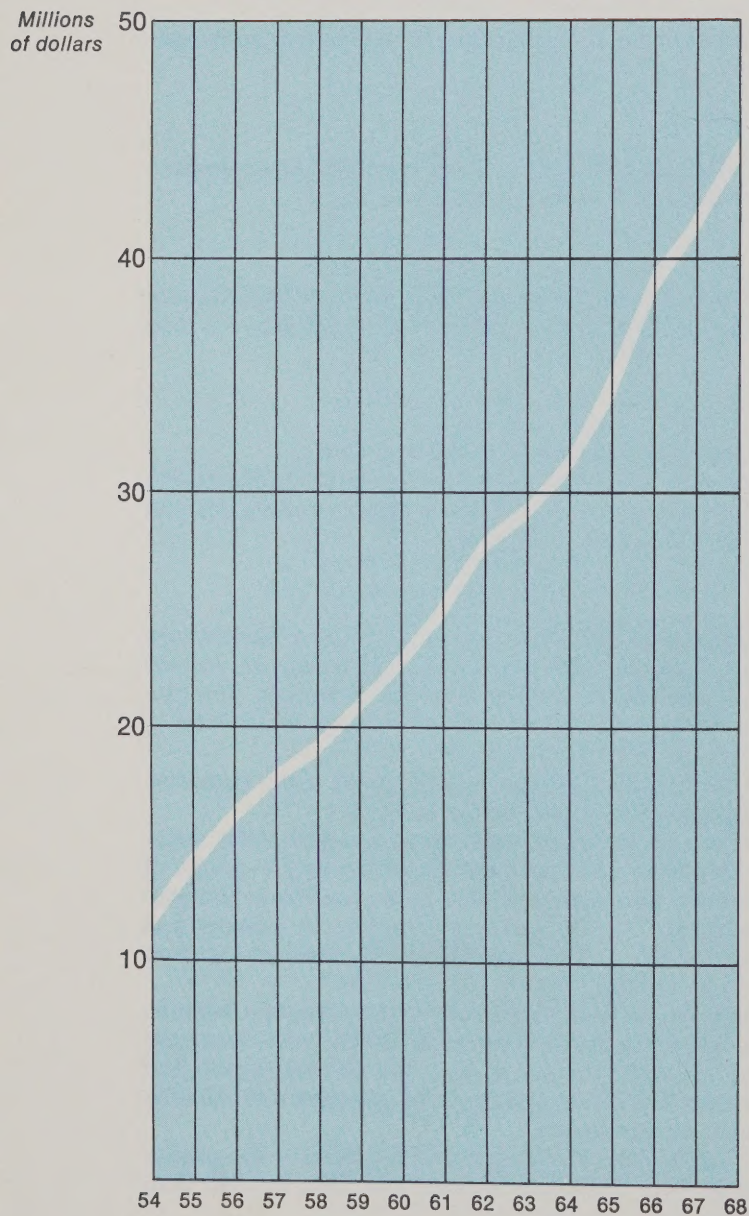


F. C. Lennox
Chairman and President

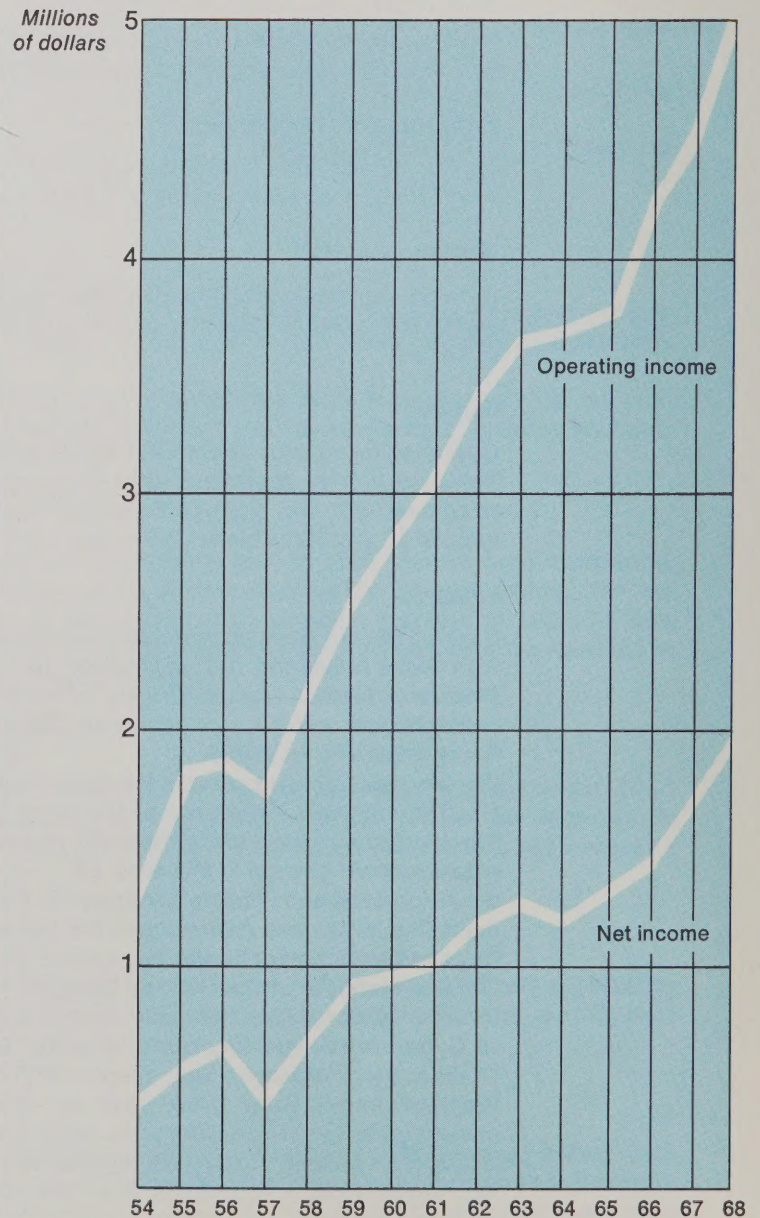


SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

FIFTEEN YEAR SALES COMPARISON



FIFTEEN YEAR EARNINGS COMPARISON



CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1968

	1968	1967
NET SALES	\$43,659,146	\$41,365,139
Costs, excluding expenses shown below	38,635,618	36,817,067
OPERATING INCOME , before undernoted items	\$ 5,023,528	\$ 4,548,072
Deduct:		
Moving and starting up expenses of new plants	\$ —	\$ 14,947
Interest on long term debt	161,816	176,946
Depreciation	1,026,107	968,329
	\$ 1,187,923	\$ 1,160,222
Operating income before income taxes	\$ 3,835,605	\$ 3,387,850
Taxes on income — current	\$ 2,115,000	\$ 1,421,000
— deferred	(156,000)	201,000
	\$ 1,959,000	\$ 1,622,000
NET INCOME FROM OPERATIONS	\$ 1,876,605	\$ 1,765,850
Profit on disposal of equipment less deferred income taxes related thereto	48,747	—
NET INCOME FOR THE YEAR	\$ 1,925,352	\$ 1,765,850

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1968

	1968	1967*
RETAINED EARNINGS AT BEGINNING OF YEAR		\$ 7,599,408
Adjustment re deferred income taxes		358,000
RETAINED EARNINGS AT BEGINNING OF YEAR—restated	\$ 7,617,474	\$ 7,957,408
Net income for the year	1,925,352	1,765,850
	\$ 9,542,826	\$ 9,723,258
Deduct:		
Dividends — preferred shares	\$ 105,784	\$ 105,784
— common shares	1,200,000	2,000,000
	\$ 1,305,784	\$ 2,105,784
RETAINED EARNINGS AT END OF YEAR	8,237,042	\$ 7,617,474

*1967 figures have been restated, where necessary, to reflect adjustments to deferred income taxes.



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1968

CURRENT ASSETS	1968	1967*
Cash	\$ 10,742	\$ 616,876
Accounts receivable (note 1)	5,347,614	4,622,132
Inventories (note 2)	9,177,523	8,441,531
Prepaid expenses	246,105	172,437
	<u>\$14,781,984</u>	<u>\$13,852,976</u>
CURRENT LIABILITIES		
Bank advances	\$ 334,830	\$ —
Accounts payable and accrued liabilities (note 1)	3,089,803	3,339,484
Income taxes payable	882,889	716,099
Other taxes payable	187,385	173,379
Long term debt payable within one year	315,312	280,809
Dividends payable	26,446	2,026,446
Advances from parent company	4,700,000	2,500,000
	<u>\$ 9,536,665</u>	<u>\$ 9,036,217</u>
WORKING CAPITAL	<u>\$ 5,245,319</u>	<u>\$ 4,816,759</u>
SINKING FUND RE PREFERRED SHARES —		
government and industrial bonds at market		
values (cost \$123,251)	\$ 100,105	\$ 102,188
INVESTMENTS — Shares in 50% owned company —		
Mastico Industries Limited — at cost	\$ 125,000	\$ —
DEFERRED RECEIVABLES	\$ 28,100	\$ 130,758
FIXED ASSETS (note 3)	\$20,511,702	\$20,147,386
Less: Accumulated depreciation	8,867,745	8,216,596
	<u>\$11,643,957</u>	<u>\$11,930,790</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>\$17,142,481</u>	<u>\$16,980,495</u>
LONG TERM DEBT (note 4)	\$ 2,342,250	\$ 2,657,562
DEFERRED INCOME TAXES	2,100,000	2,201,000
	<u>\$ 4,442,250</u>	<u>\$ 4,858,562</u>
NET ASSETS (being Shareholders' equity)	<u>\$12,700,231</u>	<u>\$12,121,933</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	\$ 2,245,300	\$ 2,245,300
Retained earnings (note 6)	8,237,042	7,617,474
Excess of appraised value of fixed assets		
over cost, less sundry charges	2,217,889	2,259,159
TOTAL SHAREHOLDERS' EQUITY	<u>12,700,231</u>	<u>\$12,121,933</u>

Signed on behalf of the Board:

F. C. Lennox, Director

J. G. Church, Director

*1967 figures have been restated, where necessary, to reflect adjustments to deferred income taxes.

NOTES TO CONSOLIDATED STATEMENTS

1. Accounts receivable and accounts payable:		
Included in accounts receivable is an amount of \$201,717 owing from, and in accounts payable an amount of \$257,376 owing to affiliated and associated companies.		
2. Inventories:	<u>1968</u>	<u>1967</u>
The value of inventories is shown at the lower of cost and net realizable value.		
Raw material, goods in process and supplies	\$ 4,890,217	\$ 4,210,969
Finished goods	<u>4,287,306</u>	<u>4,230,562</u>
	<u>\$ 9,177,523</u>	<u>\$ 8,441,531</u>
3. Fixed assets:	<u>1968</u>	<u>1967</u>
The value of buildings and equipment is shown at cost or based on appraisals made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.		
Land, buildings and leasehold improvements	\$ 5,839,463	\$ 5,805,619
Machinery and equipment	<u>14,672,239</u>	<u>14,341,767</u>
	<u>\$20,511,702</u>	<u>\$20,147,386</u>
4. Long term debt:	<u>1968</u>	<u>1967</u>
First mortgage bonds: Authorized \$10,000,000		
Series A — 5¼ % sinking fund, due October 15, 1973,		
outstanding	\$ 1,057,562	\$ 1,239,000
Less: Current sinking fund provision and cash in the hands		
of the trustee	<u>190,312</u>	<u>181,438</u>
	<u>\$ 867,250</u>	<u>\$ 1,057,562</u>
Series B — 6% sinking fund, due June 15, 1977,		
outstanding	\$ 1,600,000	\$ 1,700,000
Less: Current sinking fund provision	<u>125,000</u>	<u>100,000</u>
	<u>\$ 1,475,000</u>	<u>\$ 1,600,000</u>
Total long term debt	<u>\$ 2,342,250</u>	<u>\$ 2,657,562</u>
5. Capital stock:	<u>1968</u>	<u>1967</u>
Authorized 100,000 cumulative, redeemable preferred shares, par value \$50 each, issuable in series, less 2,220 redeemed.		
500,000 common shares, without par value.		
Issued: 37,780 cumulative \$2.80 sinking fund preferred shares,		
1953 series, redeemable at \$51 per share	\$ 1,889,000	\$ 1,889,000
356,300 common shares	<u>356,300</u>	<u>356,300</u>
	<u>\$ 2,245,300</u>	<u>\$ 2,245,300</u>
6. Retained earnings:		
Retained earnings includes an amount of \$111,000 set aside as capital surplus in connection with the redemption of preferred shares as required by section 61 of the Canada Corporations Act.		
7. Long term leases:		
Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases, aggregate rentals amount to approximately \$2,513,000. Maximum annual rentals payable thereunder for the years 1969 to 1973 are approximately \$149,500.		
	<u>1968</u>	<u>1967</u>
8. Remuneration of Directors:	\$ 180,000	\$ 166,000



CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for the year ended December 31, 1968

SOURCE OF FUNDS:	1968	1967
Net income for the year	\$ 1,925,352	\$ 1,765,850
Deduct profit on disposal of equipment reflected in net income for the year	48,747	—
Net income from operations	\$ 1,876,605	\$ 1,765,850
Add items not requiring the expenditure of funds:		
Depreciation	1,026,107	968,329
Deferred income taxes	(156,000)	201,000
	\$ 2,746,712	\$ 2,935,179
Proceeds from the sale of equipment	117,434	48,215
Special refundable taxes (net)	84,958	—
Sundry items (net)	19,783	(43,041)
	<u>\$ 2,968,887</u>	<u>\$ 2,940,353</u>
APPLICATION OF FUNDS:		
Additions to fixed assets	\$ 794,231	\$ 1,151,690
Investment in shares of 50% owned company — Mastico Industries Limited	125,000	—
Dividends to shareholders — preferred	105,784	105,784
— common	1,200,000	2,000,000
Redemption of preferred shares	—	5,000
Bond sinking fund payments due in 1969	315,312	280,809
	\$ 2,540,327	\$ 3,543,283
Increase (decrease) in working capital	\$ 428,560	\$ (602,930)
Working capital at beginning of year	4,816,759	5,419,689
WORKING CAPITAL AT END OF YEAR	<u>\$ 5,245,319</u>	<u>\$ 4,816,759</u>

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
January 29, 1969

THORNE, GUNN, HELLIWELL AND CHRISTENSON
Chartered Accountants

SOMERVILLE DIRECTORY

- **Head Office and London Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Winnipeg Plant**
1885 Sargent Avenue, Winnipeg 21, Manitoba
- **Consolth Division**
865 Hodge Street, Montreal 9, Quebec
- **Canadian Folding Cartons Division**
188 Cartwright Avenue, Toronto 19, Ontario
- **Panel Division — Scarborough**
20 Bertrand Avenue, Scarborough, Ontario
- **Panel Division — Windsor**
2744 Edna Street, Windsor, Ontario
- **Somerville Automotive Trim Limited**
2744 Edna Street, Windsor, Ontario
- **Display Division**
11 Lesmill Road, Don Mills, Ontario
- **Strathmore Division**
Strathroy, Ontario
- **Somerville Plastics Division**
376 Orenda Road, Bramalea, Ontario

Sales Offices situated at all manufacturing divisions and at the following locations:

- Hamilton: 477 Main Street East
- Guelph: 21 Oak Street (P.O. Box 331)
- Moncton: P.O. Box 1106
- Peterborough: 166 Brock Street (P.O. Box 325)

Representatives:

- Newfoundland: N. C. Hutton, Ltd., St. John's
- Quebec: Henri Gauvin, Quebec City
Marcel Messely, Quebec City
- Ontario: Mid-West Paper Limited, Port Arthur
Snelling Paper Sales Limited, Ottawa
- Prairie Provinces: Crown Zellerbach Canada Ltd., Winnipeg
Mid-West Paper Limited, Winnipeg
Canadian International Paper Company, Winnipeg

Coast-to-Coast:

- Games Sales — Frank E. Lucas and Company, Toronto
- Party Cracker Sales — Harry Adelman Agencies, Toronto

